



TRANSMITTAL SLIP			9 June 1971
TO: Director of Finance			
ROOM NO. 616	BUILDING Key Building		
REMARKS:  Mr. Bush:  I have not sent you the complete package since it is voluminous and we do not have sufficient copies, but I have sent you the material in which I thought you would be most interested.  			
FROM:  OLC			
ROOM NO. 7 D 35	BUILDING	EXTENSION 6136	
FORM NO. 241 1 FEB 55		REPLACES FORM 36-8 WHICH MAY BE USED. (47)	

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State Dept. declassification &amp; release instructions on file



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## ROUTING AND RECORD SHEET

SUBJECT: (Optional)

FROM:

Office of Legislative Counsel

EXTENSION

NO.

6136

DATE

9 June 1971

TO: (Officer designation, room number, and building)

DATE

RECEIVED

FORWARDED

OFFICER'S  
INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

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State has sent us their proposed omnibus amendments to the Foreign Service Retirement Act, hoping this would facilitate our early review and, if appropriate, support if OMB formally requests our comments.

You will note that per their (and our) actuary's projection, as long as we continue to have frequent pay raises, the input to their Fund from the 30-year amortization of the newly created unfunded liability will more than offset the normal cost deficit.

While many of the amendments are designed to catch up to recent liberalizations in the Civil Service system, one terminates future annuities for surviving spouse below age 60, thus ending one of the major differences between Foreign Service and other systems with respect to treatment of surviving spouses. Also, State is proposing an increase in maximum annuity from 70 to 80%, again, and a supplemental annuity for recall periods of less than five years.

STATINTL

(Note: Copies sent to [redacted] (OGC), D/Personnel and D/Finance)

FORM  
3-62

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DEPARTMENT OF STATE

WASHINGTON



JUN 2 1971

STATINTL

[REDACTED]  
Office of Legislative Council  
Central Intelligence Agency  
Washington, D. C. 20505

Dear Lyle:

Per our recent conversation, attached are copies of  
proposed retirement legislation we are forwarding to OMB.

We would very much appreciate your expeditious consid-  
eration and support of these proposals.

Sincerely,

A handwritten signature in dark ink, appearing to read "Bob" with a stylized flourish.

Robert B. Hull, Jr.  
Personnel Management and  
Analysis Staff

Attachment:

Three copies of  
legislation



DEPARTMENT OF STATE

Washington, D.C. 20520

The Honorable  
George P. Shultz, Director  
Office of Management and Budget

Dear Mr. Shultz:

In accordance with established procedure, there are enclosed for your review a number of proposed Foreign Service retirement and related amendments of the Foreign Service Act of 1946.

These amendments are designed to facilitate and improve administration of the retirement system and to provide equity to officers and employees of the Foreign Service. The need for many of these changes was identified by the recent Task Forces on Management Reform. A detailed explanation and justification for each change is included.

Many of the proposed amendments involve changes in Foreign Service survivor benefits to equate Foreign Service benefits with corresponding Civil Service benefits. These changes are needed to provide equity to present participants in the Foreign Service retirement system. They are especially urgent at this time because personnel converting to the Foreign Service retirement system under the Foreign Affairs Specialist program naturally want to be assured that their benefits under that system are equivalent to benefits they now have under the Civil Service retirement system. These proposed amendments are necessary to ensure this.

Many of the proposed retirement amendments have been delayed for the past several years pending resolution of the retirement funding problem. This problem was greatly alleviated by enactment in 1970 of Public Law 91-201 providing for payment of interest on the unfunded liability and for appropriations to amortize, in total, the unfunded liability

FOR ADMINISTRATION  
WASHINGTON

MEMORANDUM

TO: H - Mr. Abshire

FROM: O - William B. Macomber, Jr.

SUBJECT: Proposed Foreign Service Retirement Amendments

Attached for your signature is a letter to the Director of OMB requesting clearance on amendments of the Foreign Service Act to improve the Foreign Service retirement system. The amendments would implement Task Force action items 322, 323, 324 and 327 and make a number of other improvements in the retirement system.

A summary of the proposals is included as the first enclosure under the transmittal letter to OMB.

Many of these proposals have been delayed for several years pending an agreement on retirement financing. Basically OMB has been reluctant to approve new benefits until arrangements are worked out to pay the full Foreign Service normal cost. Only about half this cost is now being paid and the annual deficit at the current payroll level is about \$14 million. Amazingly, however, the Actuary has made a new study which indicates that this amount may not be needed as long as we continue to have frequent pay raises. This is because, under these conditions, appropriations to amortize the unfunded liability created by pay raises in the long run will more than offset the normal cost deficit. On this basis and as explained more fully in the letter to OMB, we are recommending that as long as the Fund continues to increase, we continue present financing practices.

Many of the proposals involve changing Foreign Service survivor benefits to equate them with present Civil Service benefits. Two of these changes may be controversial. One such is the proposed termination of future annuities to widows and widowers upon their remarriage below age 60. Such annuities have always continued for life in the Foreign Service. The proposed curtailment may provoke strong protests from employee groups. Nevertheless, we believe the Department should propose this change.

Continuation of Foreign Service annuities for life was reasonable when an officer was required to accept a reduction in his own annuity by an amount sufficient to totally offset the cost of the survivor benefit. The required reduction was substantially reduced in 1960 and under the attached, would be reduced still further and will not begin to pay the cost of a survivor annuity. This change, coupled with the proposed extension of survivor annuities to nondependent widowers and to spouses acquired after retirement and the lowering of the service requirement in 1970 so that a young widow or widower can qualify for a survivor annuity after a death in Service with as little as 18 months of service, make the present policy questionable.

We do not think there is any possibility that the Department could secure an increase in some Foreign Service survivor benefits to catch up with the Civil Service while retaining this one benefit that exceeds Civil Service benefits and that can no longer be justified.

If we must lose this benefit, we believe the Department should propose this reduction rather than be requested to do so by CSC and OMB. A recommendation from the Department proposing to retain this benefit would give our critics in those agencies an opportunity to flail this as an "irresponsible" proposal. It would lessen chances for favorable consideration of other special requests, especially on financing, grants to certain widows and supplemental benefits to certain retired personnel.

The other survivorship change that may be controversial is the proposed elimination of the requirement for all males who are married at retirement to elect at least a minimum survivor annuity. This provision was added in 1965 at the suggestion of the House Foreign Affairs Committee because of so many requests for grants to Foreign Service widows left without annuities.

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This situation arose because of the especially high cost for an officer to elect a survivor annuity prior to 1960. Under these proposed amendments, a \$2400 survivor annuity could be elected by a reduction of only \$167 in the retiree's annuity. This contrasts with the current cost of \$300 and the cost prior to 1960 of \$1200.

This proposal would equate the Foreign Service formula with the Civil Service formula. Under the latter system, 98% of the married male retirees elect a survivor benefit. We would expect the same proportion to prevail in the Foreign Service.

The present mandatory requirement is unfair to those few officers who retire when they are in the process of divorce or whose wives have a terminal illness. Naturally if the Foreign Affairs Committee is not convinced by this argument, the Department, at that time, could drop this proposal.

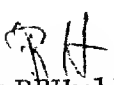
If you have no objection, as soon as you have signed the attached letter to OMB, we would like to send copies to CSC and CIA, two certain OMB clearance points, and request expeditious action.

Recommendation

That you sign the attached letter to OMB.

Attachment:

Letter to OMB with enclosures, for signature.

  
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created by future pay raises and benefit improvements. In order to appraise the effect of this Act, the Government Actuary in the Treasury Department has constructed a static computer model (no future pay raises) and a dynamic model (assuming pay raises of  $3\frac{1}{2}$  percent per annum) to project the future course of the retirement fund over the next 80 years assuming continued payment of approximately one-half of the normal cost of the system, i.e. continuation of the present employee 7 percent contribution, matching 7 percent agency contribution and about  $1\frac{1}{2}$  percent from participants in payment for prior service credit. Under the static model, the fund becomes exhausted in the year 2025. In the dynamic model, the retirement fund continues to rise in proportion to annual benefit payments and by the year 2050, it exceeds \$14 billion. This is 10 times the projected benefit payments for that year and compares to the present ratio of the fund being double annual benefits.

In the near future, we plan to submit additional amendments of the Foreign Service Act involving medical and travel authority, alien personnel and general administrative matters. We believe the Foreign Relations and the Foreign Affairs Committees will want to consider all proposed amendments of the Foreign Service Act at one time. Accordingly, we propose to combine all proposed amendments in a single bill covering retirement, travel, medical, alien personnel and general administrative matters. For this reason, we have not included here a draft bill or covering transmittal letter to the Speaker. We will prepare these after we have obtained your clearance on all of the proposed amendments.

In lieu of a draft bill, we are attaching for your review at this time comparable text showing present and proposed language for each section we propose to amend and an explanation of each amendment. We trust this procedure will meet with your approval.

There is also enclosed a summary description of the proposed amendments, a cost estimate and summary of the Actuary's projections.



We would appreciate your prompt consideration of these amendments and clearance for submission to the Congress.

Sincerely,

David M. Abshire  
Assistant Secretary for  
Congressional Relations

Enclosures:

1. Summary description of amendments
2. Summary of actuarial projections
3. Comparable text and explanation
4. Cost estimate